



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Offices of Audit Services

February 18, 2004

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Report Number: A-07-04-03048

Mr. Charles R. Hartsell  
President and Chief Operating Officer  
Cahaba Government Benefit Administrators  
P.O. Box 830139  
Birmingham, Alabama 35283-0130

Dear Mr. Hartsell:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General report entitled "***Review of Pension Costs Claimed by Cahaba Government Benefit Administrators.***" A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, do not hesitate to call me or Gregory Tambke, Audit Manager at (573) 893-8338, ext. 30 or through e-mail at [gtambke@oig.hhs.gov](mailto:gtambke@oig.hhs.gov). To facilitate identification, please refer to Report Number A-07-04-03038 in all correspondence relating to this report.

Sincerely,

James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Directly Reply to HHS Action Official:**

Rose Crum-Johnson  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Atlanta Federal Center  
61 Forsyth Street, S.W., Suite 4T20  
Atlanta, Georgia 30303-8909

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
BY CAHABA GOVERNMENT BENEFIT  
ADMINISTRATORS**



**FEBRUARY 2004  
A-07-04-03048**

# *Office of Inspector General*

<http://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# ***Notices***

## **THIS REPORT IS AVAILABLE TO THE PUBLIC at <http://oig.hhs.gov/>**

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1994 through 2002.

### **FINDING**

For FYs 1994 through 2002, we determined that Blue Cross and Blue Shield of Alabama (Cahaba) under claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$20,851,684. However, Cahaba claimed pension costs of \$13,766,191 for Medicare reimbursement. As a result, Cahaba did not claim \$7,085,493 of allowable pension costs.

### **RECOMMENDATION**

We recommend that Cahaba revise its Final Administrative Cost Proposals (FACPs) for Fiscal Years 1994 through 2002 to claim additional allowable CAS pension costs of \$7,085,493.

### **AUDITEE COMMENTS**

Cahaba agreed with our report, and stated they would revise their FACPs to claim additional costs. Cahaba's comments are shown in their entirety as Appendix B.

## **TABLE OF CONTENTS**

INTRODUCTION	1
BACKGROUND	1
Medicare	1
OBJECTIVE, SCOPE AND METHODOLOGY	1
Objective	1
Scope	1
Methodology	2
FINDINGS IN DETAIL	2
CRITERIA	2
CONDITION	2
CAUSE	2
EFFECT	3
RECOMMENDATION	3
AUDITEE COMMENTS	3
<b>APPENDICES</b>	
CAHABA STATEMENT OF ALLOWABLE CAS PENSION COSTS	A
CAHABA's COMMENTS ON DRAFT REPORT	B

## **Glossary of Abbreviations and Acronyms**

FPR	Federal Procurement Regulations
FAR	Federal Acquisition Regulations
CAS	Cost Accounting Standards
CMS	Centers for Medicare and Medicaid Services

## **BACKGROUND**

### ***Medicare***

Cahaba administers Medicare Part A and B operations under cost reimbursement contracts. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR) the Cost Accounting Standards (CAS) and the Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by Part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### ***Objective***

The objective of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for FYs 1994 through 2002.

### ***Scope***

This review was done in conjunction with our review of Cahaba's pension segmentation (Report Number: A-07-03-03038), and unfunded pension costs (Report Number: A-07-03-03053). The information obtained and reviewed during those audits was also used in performing this review.

We identified Cahaba's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Cahaba funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1994 through 2002.

Appendix A contains the details on the pension costs and contributions. Achieving the objective did not require a review of Cahaba's internal control structure.

### ***Methodology***

We made our examination in accordance with generally accepted government auditing standards. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Cahaba's historical practices. We performed site work at Cahaba's corporate office in Birmingham, Alabama in March of 2003. We also performed audit work in our OIG offices in Kansas City and Jefferson City, Missouri.

## **FINDINGS IN DETAIL**

For FYs 1994 through 2002, Cahaba under claimed \$7,085,493 in pension costs. Cahaba claimed costs based on conservative estimates of allowable costs within CMS funding limitations.

### **CRITERIA**

The determination and allocation of pension costs are addressed by the Medicare contract, which states:

*"The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413."*

### **CONDITION**

For FYs 1994 through 2002, Cahaba charged \$13,766,191 of pension costs to Medicare. However, the allowable CAS pension costs were \$20,851,684 for the same period. Therefore, Cahaba did not claim \$7,085,493 in allowable pension costs.

### **CAUSE**

We calculated the allowable CAS pension costs for the direct Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. In contrast, Cahaba claimed costs as conservative estimates of allowable costs within CMS funding limitations. Consequently, Cahaba significantly under claimed allowable pension costs. We compared our calculated allowable CAS pension costs to the pension costs claimed on Cahaba's FACPs and found:

### Pension Cost Claimed Variance

<b>FISCAL YEAR</b>	<b>ALLOWABLE</b>	<b>CLAIMED BY CAHABA</b>	<b>UNDER CLAIMED COSTS</b>
<b>1994</b>	854,917	125,000	729,917
<b>1995</b>	897,321	400,000	497,321
<b>1996</b>	1,207,481	500,000	707,481
<b>1997</b>	1,485,321	852,100	633,221
<b>1998</b>	1,803,951	697,949	1,106,002
<b>1999</b>	2,060,697	1,254,159	806,538
<b>2000</b>	3,048,022	2,200,049	847,973
<b>2001</b>	4,375,411	3,554,034	821,377
<b>2002</b>	5,118,563	4,182,900	935,663
<b>Total</b>	<b>\$20,851,684</b>	<b>\$13,766,191</b>	<b>\$7,085,493</b>

#### **EFFECT**

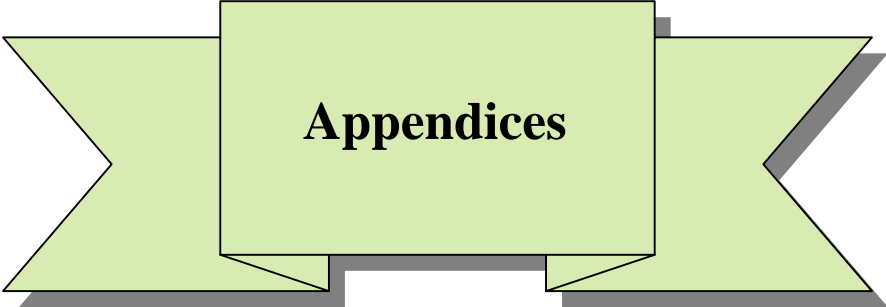
For FYs 1994 through 2002, Cahaba claimed pension costs of \$13,766,191 for Medicare reimbursement. However, the allowable CAS pension costs were \$20,851,684. As a result, Cahaba could have claimed \$7,085,493 in additional CAS pension costs.

#### **RECOMMENDATION**

We recommend that Cahaba revise its FACPs for FYs 1994 through 2002 to claim additional allowable CAS pension costs of \$7,085,493.

#### **AUDITEE COMMENTS**

Cahaba agreed with our report, and stated they would revise their FACPs to claim additional costs. Cahaba's comments are shown in their entirety as Appendix B.



**Appendices**

## CAHABA

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1994 THROUGH 2002

Date	Description		Total Company	Other Segments	Medicare Segment
1994	Contribution(s)	1/	\$4,708,702	\$4,708,702	\$0
8.00%	Discount for Interest	2/	(83,152)	(83,152)	0
1/1/94	Pres Val Contributions	3/	4,625,550	4,625,550	0
1/1/94	Prepayment Credit	4/	5,221,660	4,434,661	786,999
1/1/94	Pres Value of Funding	5/	9,847,210	9,060,211	786,999
1/1/94	Assigned Pension Cost	6/	5,221,660	4,434,661	786,999
1/1/94	CAS Funding Target	7/	5,221,660	4,434,661	786,999
1/1/94	% Funded	8/		100.00%	100.00%
1/1/94	Funded Pension Cost	9/		4,434,661	786,999
1/1/94	Allowable Interest	10/		0	0
FY 94	Allocable Pension Cost	11/		4,272,379	783,199
	Medicare LOB%	12/		5.18%	80.9%
FY 94	Allowable Pension Cost	13/	854,917	221,309	633,608

Date	Description		Total Company	Other Segments	Medicare Segment
1995	Contribution(s)		\$5,782,247	\$5,782,247	\$0
8.00%	Discount for Interest		(166,786)	(166,786)	0
1/1/95	Pres Val Contributions		5,615,461	5,615,461	0
1/1/95	Prepayment Credit		5,905,122	5,145,052	760,070
1/1/95	Pres Value of Funding		11,520,583	10,760,513	760,070
1/1/95	Assigned Pension Cost		5,905,122	5,145,052	760,070
1/1/95	CAS Funding Target		5,905,122	5,145,052	760,070
1/1/95	% Funded			100.00%	100.00%
1/1/95	Funded Pension Cost			5,145,052	760,070
1/1/95	Allowable Interest			0	0
FY 95	Allocable Pension Cost			4,967,454	766,802
	Medicare LOB%			5.21%	83.27%
FY 95	Allowable Pension Cost		897,321	258,804	638,516

## CAHABA

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1994 THROUGH 2002

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1996	Contribution(s)	\$3,096,380	\$3,096,380	\$0
8.00%	Discount for Interest	(81,217)	(81,217)	0
1/1/96	Pres Val Contributions	3,015,163	3,015,163	0
1/1/96	Prepayment Credit	7,538,588	6,388,306	1,150,282
1/1/96	Pres Value of Funding	10,553,751	9,403,469	1,150,282
1/1/96	Assigned Pension Cost	7,538,588	6,388,306	1,150,282
1/1/96	CAS Funding Target	7,538,588	6,388,306	1,150,282
1/1/96	% Funded		100.00%	100.00%
1/1/96	Funded Pension Cost		6,388,306	1,150,282
1/1/96	Allowable Interest		0	0
FY 96	Allocable Pension Cost		6,077,493	1,052,729
	Medicare LOB%		5.20%	84.68%
FY 96	Allowable Pension Cost	1,207,481	\$316,030	891,451

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1997	Contribution(s)	\$7,094,000	\$6,960,904	\$133,096
8.00%	Discount for Interest	(342,982)	(336,547)	(6,435)
1/1/97	Pres Val Contributions	6,751,018	6,624,357	126,661
1/1/97	Prepayment Credit	7,266,923	6,499,001	767,922
1/1/97	Pres Value of Funding	14,017,941	13,123,358	894,583
1/1/97	Assigned Pension Cost	8,465,532	7,570,949	894,583
1/1/97	CAS Funding Target	8,465,532	7,570,949	894,583
1/1/97	% Funded		100.00%	100.00%
1/1/97	Funded Pension Cost		7,570,949	894,583
1/1/97	Allowable Interest		54,460	6,435
FY 97	Allocable Pension Cost		7,316,133	963,334
	Medicare LOB%		8.62%	88.72%
FY 97	Allowable Pension Cost	1,485,321	630,651	854,670

## CAHABA

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1994 THROUGH 2002

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1998	Contribution(s)	\$4,284,360	\$4,051,402	\$232,958
8.00%	Discount for Interest	(193,145)	(182,643)	(10,502)
1/1/98	Pres Val Contributions	4,091,215	3,868,759	222,456
1/1/98	Prepayment Credit	5,996,602	5,244,397	752,205
1/1/98	Pres Value of Funding	10,087,817	9,113,156	974,661
1/1/98	Assigned Pension Cost	7,770,028	6,795,367	974,661
1/1/98	CAS Funding Target	7,770,028	6,795,367	974,661
1/1/98	% Funded		100.00%	100.00%
1/1/98	Funded Pension Cost		6,795,367	974,661
1/1/98	Allowable Interest		73,221	10,502
FY 98	Allocable Pension Cost		7,057,793	964,127
	Medicare LOB%		13.1%	91.21%
FY 98	Allowable Pension Cost	1,803,951	924,571	879,380

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1999	Contribution(s)	\$3,396,170	\$2,328,058	\$1,068,112
8.00%	Discount for Interest	(143,117)	(98,106)	(45,011)
1/1/99	Pres Val Contributions	3,253,053	2,229,952	1,023,101
1/1/99	Prepayment Credit	2,503,212	1,435,320	1,067,892
1/1/99	Pres Value of Funding	5,756,265	3,665,272	2,090,993
1/1/99	Assigned Pension Cost	4,901,430	2,810,437	2,090,993
1/1/99	CAS Funding Target	4,901,430	2,810,437	2,090,993
1/1/99	% Funded		100.00%	100.00%
1/1/99	Funded Pension Cost		2,810,437	2,090,993
1/1/99	Allowable Interest		60,498	45,011
FY 99	Allocable Pension Cost		3,870,348	1,848,294
	Medicare LOB%		7.04%	96.75%
FY 99	Allowable Pension Cost	2,060,697	272,473	1,788,224

## CAHABA

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1994 THROUGH 2002

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
2000	Contribution(s)	\$10,923,186	\$8,473,815	\$2,449,371
	8.00% Discount for Interest	(555,869)	(431,223)	(124,646)
1/1/00	Pres Val Contributions	10,367,317	8,042,592	2,324,725
1/1/00	Prepayment Credit	923,222	707,990	215,232
1/1/00	Pres Value of Funding	11,290,539	8,750,582	2,539,957
1/1/00	Assigned Pension Cost	10,894,945	8,354,988	2,539,957
1/1/00	CAS Funding Target	10,894,945	8,354,988	2,539,957
1/1/00	% Funded		100.00%	100.00%
1/1/00	Funded Pension Cost		8,354,988	2,539,957
1/1/00	Allowable Interest		410,012	124,646
FY 00	Allocable Pension Cost		7,291,484	2,532,453
	Medicare LOB%		9.12%	94.1%
FY 00	Allowable Pension Cost	3,048,022	664,983	2,383,039

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
2001	Contribution(s)	\$27,432,495	\$23,770,662	\$3,661,833
	8.00% Discount for Interest	(1,487,044)	(1,288,546)	(198,498)
1/1/01	Pres Val Contributions	25,945,451	22,482,116	3,463,335
1/1/01	Prepayment Credit	427,242	323,102	104,140
1/1/01	Pres Value of Funding	26,372,693	22,805,218	3,567,475
1/1/01	Assigned Pension Cost	14,635,872	11,068,398	3,567,474
1/1/01	CAS Funding Target	14,635,872	11,068,398	3,567,474
1/1/01	% Funded		100.00%	100.00%
1/1/01	Funded Pension Cost		11,068,398	3,567,474
1/1/01	Allowable Interest		608,900	196,256
FY 01	Allocable Pension Cost		10,949,224	3,488,948
	Medicare LOB%		8.88%	97.54%
FY 01	Allowable Pension Cost	4,375,411	972,291	3,403,120

**CAHABA****STATEMENT OF ALLOWABLE CAS PENSION COSTS****FOR FISCAL YEARS 1994 THROUGH 2002**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
2002	Contribution(s)	\$26,910,000	\$25,565,550	\$1,344,450
8.00%	Discount for Interest	(1,406,496)	(1,366,226)	(70,270)
1/1/02	Pres Val Contributions	25,503,504	24,229,324	1,274,180
1/1/02	Prepayment Credit	12,675,767	9,521,086	3,154,681
1/1/02	Pres Value of Funding	38,179,271	33,750,410	4,428,861
1/1/02	Assigned Pension Cost	17,795,527	13,366,666	4,428,861
1/1/02	CAS Funding Target	17,795,527	13,366,666	4,428,861
1/1/02	% Funded		100.00%	100.00%
1/1/02	Funded Pension Cost		13,366,666	4,428,861
1/1/02	Allowable Interest		212,080	70,270
FY 02	Allocable Pension Cost		13,103,384	4,315,281
	Medicare LOB%		6.98%	97.42%
FY 02	Allowable Pension Cost	\$5,118,563	\$914,616	\$4,203,947

**CAHABA****STATEMENT OF ALLOWABLE CAS PENSION COSTS  
FOR FISCAL YEARS 1994 THROUGH 2002****FOOTNOTES**

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this Appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.

**CAHABA****STATEMENT OF ALLOWABLE CAS PENSION COSTS****FOR FISCAL YEARS 1994 THROUGH 2002**

- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Cahaba.
- 13/ We computed the allowable Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.



January 29, 2004

Mr. James P. Aasmundstad  
Regional Inspector General for Audit Services, Region VII  
601 East 12<sup>th</sup> Street  
Room 284A  
Kansas City, MO 64106

RE: Report Number(s)    A-07-04-03053  
   A-07-03-03038  
   A-07-04-03048

Dear Mr. Aasmundstad:

We have received and reviewed the draft reports for the following audits conducted at Cahaba Government Benefit Administrators:

- a) *Review Of Cahaba Government Benefit Administrators Unfunded Pension Costs*
- b) *Review Of Medicare Contractor's Pension Segment, Cahaba Government Benefit Administrators*
- c) *Review Of Pension Costs Claimed By Cahaba Government Benefit Administrators*

We appreciate the opportunity to respond to the draft reports and have provided our written comments in the attached report.

If you should have any questions regarding our responses, please contact Chris Smith, at 205-220-5789.

Sincerely,

**Mrs. Lynda Northcutt**  
**Senior Vice President**  
**Cahaba Government Benefit Administrators**

cc:     **Greg Tambke, HHS, OIG OAS**  
         **Norma Jo Bales, CMS – Atlanta Regional Office**  
         **Genise Huey, CMS – Atlanta Regional Office**  
         **Cindi Vice, Blue Cross and Blue Shield of Alabama**  
         **Ron Whitehead, Cahaba Government Benefit Administrators**  
         **David Brown, Cahaba Government Benefit Administrators**

**Report Number: A-07-04-03053**  
**Review of Cahaba Government Benefit Administrators Unfunded Pension Costs .**

*Recommendation(s):*

1. *Identify \$672,724 as an unallowable component of Medicare segment pension costs as of January 1, 2002.*
2. *Identify \$3,333,817 as an unallowable component of the “Other” segment’s pension cost as of January 1, 2002.*
3. *Update annually the unallowable components of pension costs for the Medicare and “Other” segments.*

Cahaba GBA comment:

In the “Findings” section of this report, the OIG comments “...Cahaba did not properly account for the accumulated unfunded pension costs that were identified in our prior review. Cahaba should have brought the accumulated unfunded pension costs forward, with interest, to January 1, 1996.” However, we did properly account for the accumulated unfunded pension costs in the 1996 report (please see Exhibit II – Section 412.50(a)(2) Base). This issue was discussed with the CMS actuary, who was in agreement that these costs were properly brought forward. Please note that the CMS actuary did not agree with the dollar amount of the bases established in the 1996 report and did modify our calculations slightly. In our opinion, the final report should reflect the agreed upon modifications.

**Cahaba has made the changes suggested by the CMS actuary.**

**Report Number: A-07-03-03038**  
**Review of Medicare Contractor’s Pension Segment, Cahaba Government Benefit Administrators**

*Recommendations(s):*

1. *We recommend that Cahaba decrease the Medicare segment pension assets by \$4,745,558 as of January 1, 2002. We also recommend that Cahaba reassign the prepayment credit of \$2,872,185 to the other segment.*

Cahaba GBA comment:

We agree with all but one issue noted in the report. The calculation methodology used by the OIG has changed since the last audit to apply the prepayment credit before contributions are allocated. This change impacts the allocation of net earnings, expenses and contributions. The OIG auditors restated the net transfer amounts and benefit payments and also made a correction to the Wellmark asset transfer. However, in our opinion, the assets were incorrectly adjusted for the Wellmark transfer amount. Adjustments were made to both the total company asset figure and the Medicare segment asset figure. In our opinion, the adjustment should have only been made to the Medicare segment asset figure.

We recommend the adjustment made to the total company asset calculation be combined with the earnings component, and the January 1, 2002 asset calculation, as identified in Appendix A of the above noted report, should be the same as reported by Cahaba (resulting in no asset variance for the total company).

**Report Number: A-07-04-03048**  
**Review Of Pension Costs Claimed By Cahaba Government Benefit Administrators**

*Recommendations(s):*

1. *We recommend that Cahaba revise its FACPs for the FYs 1994 through 2002 to claim additional allowable CAS pension costs of \$7,085,493.*

Cahaba GBA comment:

We agree with this finding that Cahaba under claimed allowable pension cost by \$7,085,493 for fiscal years 1994 through 2002. Cahaba will revise its FACPs to claim these additional costs.